



Will Air Canada (TSX:AC) Stock Ever Recover?

Description

The aviation industry's contribution to global trade, business, and economic development is nearly zero following the coronavirus outbreak in March 2020. More than 65 million jobs worldwide hang in the balance. Tourism industries are collateral damage with passengers unable to travel due to border closures and fear of COVID-19.

Meanwhile, investors in **Air Canada (TSX:AC)** are [hoping against hope](#). Canada's flag carrier expects to bleed \$15 million to \$17 million in cash during the third quarter of this year. The business must pick up soon. Otherwise, three consecutive quarters of losses would be alarming already, and the company might seek a federal bailout next.

Repeated requests

Air Canada is looking at options to reduce costs and build liquidity. The company is hinting at route suspensions and possible cancellations of Boeing and Airbus aircraft orders. CEO Calin Rovinescu has made numerous requests to the federal government to relax travel restrictions and quarantine requirements so the company can do some business.

According to the airline's Chief Commercial Officer Lucie Guillemette, Air Canada operated 220 airports in pre-corona. When the pandemic hit, it was a [virtual industry shutdown](#). The flights were limited to five vital international air markets to ensure there's sustained connectivity to Canada.

As of early August 2020, only 81 of the total 247 aircraft are in active service. Guillemette said there was also a 35% cut (from 62 to 40 airports) in the domestic network. Air Canada indefinitely suspended 30 regional routes within the country and decided to close stations at eight smaller airports.

Transborder travel restrictions and advisories are likely to stay longer due to the explosive in COVID-19 cases in some states across the border. Air Canada doesn't see traffic in the U.S. transborder network returning anytime soon. Still, Air Canada is promoting leisure and business flights to the U.S., which health officials say undermines all public health measures.

Profitability record broken

Air Canada owns a distinguished record of 27 consecutive quarters of growth and profitability before the pandemic. COVID-19, however, obliterated operating revenues in the first half of 2020. In Q1 2020, the company recorded a net loss of \$1.05 billion versus a net income of \$345 million in Q1 2019.

The losses widened in Q2 2020, with a net loss of \$1.75 billion compared with \$343 million in Q2 2019. COVID-19's impact on the business was severe and abrupt. Air Canada expects to reduce Q3 2020 capacity by about 75% as opposed to the same quarter last year.

Regarding the stock performance, Air Canada investors are losing by 67% year-to-date. Its current share price is \$15.99, coming from \$48.51 on December 31, 2019. At the height of the market crash, the airline stock sunk to \$12.15. If you recall, Air Canada delivered a total return of 86.86% in 2019.

Recovery is uncertain

Air Canada's CFO Michael Rousseau is resigned to the fact that the U.S.-Canada border will not reopen in Q3 2020. Air Canada CEO Calin Rovinescu says it will take at least three years to get to 2019 revenue and capacity levels. The outlook isn't encouraging.

Don't ask if the stock will recover. Instead, ask how many more losses Air Canada will post in the next quarter.

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